

M e m o r a n d u m

To: Panel Members Date: September 22, 2006

From: Diana Torres, Manager Analyst: Joe Davey

Subject: One-Step Agreement for **FREMONT INVESTMENT & LOAN**

CONTRACTOR:

- Training Project Profile: Retraining: Companies W/Out-Of-State Competition
- Legislative Priorities: Moving To A High Performance Workplace
- Type of Industry: Finance and Insurance Residential & Commercial Lending
- Repeat Contractor: No
- Contractor's Full-Time Employees
 - *Worldwide:* 3,200
 - *In California:* 1,962
- ETP Trainees Represented by Union: No
- Name and Local Number of Union Representing ETP Trainees: N/A

CONTRACT:

- Program Costs: \$975,000
- Substantial Contribution: \$0
- Total ETP Funding: \$975,000
- Total In-kind Contribution: \$1,571,352
 - *Trainee Wages Paid During Training:* \$1,571,352
 - *Other Contributions:* \$0
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Contra Costa, Los Angeles, Orange, San Bernardino

INTRODUCTION:

Fremont Investment & Loan (Fremont) is a subsidiary of Fremont General Corporation, which is headquartered in Santa Monica. Fremont originates and acquires commercial and residential real estate loans sold through a brokerage network. Fremont operates through branch offices across the United States, with five regional offices located in Southern California, Northern California, New York, Illinois and Florida.

Fremont Investment & Loan is eligible for Panel funding under three of the out-of-state competition provisions outlined in Title 22, California Code of Regulations, Section 4416: Brea, Santa Monica, and Anaheim locations are eligible as headquarters facilities that support the company's regional business center locations that conduct significant business outside of California; the Ontario mortgage loan servicing center is eligible as such under [4416 (f)]; and, the Anaheim and Concord loan origination centers are eligible under standard retraining [4416 (d)(3),(4)] for retraining current employees at facilities that provide services in California that compete with out-of-state competitors and provide significant services to out-of-state customers. The company proposes to retrain 1,000 employees in skills to assist the company's move toward a more productive, higher performing workplace.

MEETING ETP GOALS AND OBJECTIVES:

Fremont proposes training that will further the following ETP goals and objectives:

- 1) Meet the need for a skilled workforce in the financial services industry. Fremont faces competition from other companies in the residential and commercial mortgage industry that are headquartered outside the State of California. Thus, this project meets ETP's legislative mandate to foster job retention in industries that provide a service out-of-state and are threatened by out-of-state competition.
- 2) Meet ETP's legislative mandate to develop frontline workers with skills that prepare them for a high performance workplace.

TRAINING PLAN TABLE:

Grp/Trainee Type	Types Of Training	No. Retain	No. Class/Lab Videocnf. Hrs.	No. CBT Hrs.	Cost Per Trainee	Hourly Wage After 90 Days
Job 1/Direct Employer Retrainee	Menu: Commercial Skills, Computer Skills, Continuous Improvement Skills	1,000	24 – 200	8 – 10	\$975	*\$11.83 - \$55.00
Wages After 90-Day Retention						
<u>Occupation</u>						
Commercial Loan Staff Loan Processing Staff Loan Servicing Staff Managers/Supervisors Sales Staff						
<u>Health Benefits Used To Meet ETP Minimum Wage:</u>					<u>Turnover Rate</u>	<u>% Of Mgrs & Supervisors To Be Trained:</u>
Health benefits of at least \$1.68 per hour may be added to the base wage to meet the ETP minimum hourly rate of \$12.90 per hour for Contra Costa, Los Angeles, and Orange Counties; and \$11.83 per hour for San Bernardino County.					17%	
In addition to Health Benefits, Sales Staff receive commissions that will be added to their wages to meet the ETP minimum wage for the respective counties identified above.						10%
<u>Other Employee Benefits:</u>						
In addition to health, dental and vision, Fremont offers the following fringe benefits: Employee Assistance Program (EAP), health and dependent Care spending accounts, life and accidental death and dismemberment, long-term disability benefits, an employee stock ownership plan, and an investment incentive 401(k) Plan.						

COMMENTS / ISSUES:

➤ *Frontline Workers*

Nine hundred participants in this project meet the Panel definition of frontline workers under Title 22 California Code of Regulations (CCR), Section 4400(ee). One hundred managers and supervisors (10%) will also participate in training. Fremont states that managers and supervisors need the skills described in this proposal to assist frontline workers in obtaining and implementing the new skills. Fremont states no senior policy staff will participate as ETP-funded trainees in this training proposal.

➤ *Production During Training*

The proposed Contractor agrees that during ETP-funded training hours, trainees will not produce products or provide services which will ultimately be sold.

RECOMMENDATION:

Staff recommends that the Panel accept the proposed Contractor's need to retrain 1,000 of its current employees in new loan processing, business-to-business software and process improvement training to remain competitive in the commercial and residential loan market.

NARRATIVE:

A Fremont company spokesperson reports that, over the past several years Fremont has been confronted with the need to provide new and improved products and services. With the rise in interest rates and a softening in the residential real estate market, Fremont must adapt its products and services to meet new competitive challenges. The company has already experienced a decline in the number of loans being generated due to higher interest rates. This means expanding its products to meet the sub-prime market, something the company has only recently initiated. As these new products and services enter the market, the company must also adapt its systems and processes to continue to expedite the application and approval process, increase efficiencies and reduce costs to off-set the reduction in loan volume.

To meet competitive pressures described above, Fremont is implementing the following new systems, processes, and products:

NARRATIVE: (continued)

The company is rolling out a new software application for processing residential loans called NetOxygen. NetOxygen is a web-enabled loan origination system designed to support a multi-branch based environment and to automate the lending process, providing seamless integration of all services to the customer. Fremont's current system (Uniform) is antiquated and operates in a DOS (Disk Operating System) based environment, requiring employees to access separate applications to perform their jobs. The new system is Windows-based and will allow the user to multitask by having several functions/programs running simultaneously. This new environment will completely change the way the company conducts business and will enable Fremont's workforce to process loans faster to meet the needs of the customer. This new system implementation and related training will affect most of the California employees. Training in the new software is critical to Fremont's ability to remain competitive and keep pace with technological advances in the industry.

The company is also implementing a Business-to-Business system: a new, internet-based interface that will allow independent loan brokers to submit and access loan applications, access and review the status of each loan, check rates and pricing, and compare loan products. In addition, sales and loan processing staff will be able to enter loans for their brokers, and review the status of all active loans. Fremont does not currently have a system that manages this process; this is a completely new system and process for Fremont. Training on this new system is critical for the company to speed up loan processing, gain quicker account access, and increase communication with independent brokers.

The company must also implement process improvement to enhance internal efficiencies. During the recent housing boom in California, Fremont provided employee incentives to increase the number of loans processed. While the incentives produced the beneficial increase in business, it also had a negative result in increasing the number of faulty loans. As a result, the company realized that it did not have the proper safeguards that would ensure sufficient review of loan applicant data. To address this issue and decrease the number of faulty accounts processed, Fremont is changing its internal processes and is now providing incentives for the number of accurate and profitable loans processed. It is critical for the company to implement new loan safeguards to increase awareness and prevent faulty loans. In addition to process improvements, new underwriting guidelines are being developed and rolled out to ensure every loan is underwritten according to the new Fremont processes and procedures. These guidelines will enable the company to maintain stringent processes and ensure loans are processed correctly and efficiently.

Finally, in addition to the changes above, Fremont is servicing more of its own loans rather than selling them to other lending institutions. This increase in internal loan servicing will help to offset the loss of business due to the decrease in loan generation caused by recent interest rate hikes. To support the increase in internal loan servicing, Fremont needs to provide its workforce with new customer services skills to provide the loan servicing staff with the skills to improve overall customer satisfaction.

NARRATIVE: (continued)

As Fremont implements new systems and process improvements, it is necessary to provide the workforce with skills such as leadership, change management, communication, and project management to enable workers to work together more effectively and to incorporate these new systems and processes into their job functions.

Fremont's business strategies and process changes directly address its market-driven challenges. The company believes the delivery of supplemental training to its frontline workforce will provide a strong foundation, and build the right competencies and operating processes to move its business forward. Therefore the company wishes to partner with ETP to provide the following supplemental skills training:

Commercial Skills Commercial Loan Staff, Loan Processing Staff, Loan Servicing Staff, Managers/Supervisors, and Sales Staff will receive Commercial Skills in areas such as next generation underwriting skills, next generation residential lending skills, advanced fraud identification/investigation skills, and mortgage loan sales/management/collections/service skills. These skills will allow Fremont employees to implement the company's business strategies effectively and support the company as it continues to compete in the increasingly competitive mortgage lending industry.

Computer Skills Fremont will provide computer skills to its Commercial Loan Staff, Loan Processing Staff, Loan Servicing Staff, Managers/Supervisors, and Sales Staff in topics such as the NetOxygen Loan Origination System (LOS) Skills, and Business to Business System Skills. These skills will allow the workforce to properly navigate, utilize and manage these new systems and processes.

Continuous Improvement Skills The company's Commercial Loan Staff, Loan Processing Staff, Loan Servicing Staff, Managers/Supervisors, and Sales Staff will receive training in continuous improvement skills aimed at moving the Company to a higher level of performance through change management skills, leadership skills, project management skills, and communication skills.

Commitment to Training

Fremont certifies that ETP funding will not displace the company's ongoing investment in the training of its workers. Fremont has demonstrated a significant commitment to training its workforce and provides ongoing training including: basic job skills, new employee orientation, anti-harassment, basic computer skills, self improvement training, ongoing training on existing products, and on-the-job training. The company will continue to provide this ongoing training during the term of the proposed ETP Agreement and beyond at its own expense. The company expects to invest approximately \$4.7M in training for 2006.

Fremont states that ETP funding will allow the company to provide a broader range of training to a larger number of employees so that it can meet critical timeframes for the rollout of the new loan origination system. Without ETP training, the rollout of this training would take longer and would include fewer employees.

SUBCONTRACTORS:

Training Funding Partners (Tustin, California) – not to exceed 11 percent of payment earned – Administration.

Training Subcontractors yet to be determined.

THIRD PARTY SERVICES:

Training Funding Partners assisted with the development of the Application. The amount reimbursed for these services is a flat fee of \$31,500.

Fremont Investment & Loan

MENU CURRICULUM

Class/Lab Hours	Trainees will receive any of the following:
Job Number 1	
24 – 200	<p>Commercial Skills</p> <ul style="list-style-type: none">• Next Generation Underwriting Skills• Next Generation Residential Lending Skills• Advanced Fraud Identification/Investigation Skills• Mortgage Loan Sales/Management/Collections/Service <p>Computer Skills</p> <ul style="list-style-type: none">• NetOxygen Loan Origination System• Business to Business Systems <p>Continuous Improvement Skills</p> <ul style="list-style-type: none">• Change Management Skills• Leadership Skills• Project Management Skills• Communication Skills

Fremont Investment & Loan

MENU CURRICULUM

(continued)

CBT Hours	Trainees will receive any of the following:
Job Number 1	Computer Skills
8 – 10	<ul style="list-style-type: none">• NetOxygen Loan Origination System• Business to Business Systems• Fraud Identification/Investigation

Comment: The parties agree that the training identified in this Curriculum may be revised from time-to-time during the term of this Agreement at the request of Contractor and with the prior written approval of ETP. (See also Section 12 in this Agreement.)